

Memorandum

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To
Bob Selander

MasterCard
International

From
Bill Jacobs



Strictly Confidential

Date
June 2, 1998

Subject
Structural Alternative

Copies to
Hans Morris

A possible structural alternative for MasterCard is a public company owned by a few major financial institutions, management and public shareholders.

It may be appropriate for us, and a few major institutions, to purchase MasterCard from the rest of the owners. I would suggest that the buyers could/would be:

Chase	NatWest	Discover
Citibank	HSBC	Household
B of A	FDC	
MBNA	GR/F Institution	

From a rough point of view, let's assume that MasterCard is valued @ \$3BN and that the final list of investors would represent 60-70% of our business, which is equivalent to 60-70% ownership.

Therefore, Newco (owned by the above) tenders for the ownership rights of all the other members worldwide. This costs them \$900MM - \$1.2 BN. The purchase could be financed through a 30% IPO which raises \$900MM and some senior debt. At the end of this process, Newco would look like this:

Institutions	60%
Public Shareholders	30
Management	10

There would be a strong incentive (requirement by us) that the owners put all, or virtually all, their business through Newco. The owners may use their own brand as the primary brand, should they so desire. The BOD would clearly have to approve any service and product development the company did. Assume Newco would continue to offer our other services such as authorization, clearing and settlement to other institutions on a fee basis.

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Our governance would change in that the Board of Directors would only be the owners, plus the 3 required outside Directors. The Company would fully be operated on a “for profit/ROE” basis. This change in governance would meet all the stated requirements of Purcell in order for him to change Discover to MasterCard. In addition, with FDC as a significant owner, the issues relating to technology/processing may also be rationalized with some combination.

The structure of MasterCard would also change in that the need for regional organizations and Boards may disappear. There would be the elimination of a lot of the time, energy and people that are involved with the “association” stuff.

If we believe this is a reasonable approach, it is important to move very quickly as the competitive landscape is moving quickly. I also believe that this could go a long way to satisfy the DOJ.

WIJ/ks